

Internal Revenue Service

Number: **201324004**

Release Date: 6/14/2013

Index Numbers: 1362.02-02, 1502.79-00,
1502.89-00

Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:04

PLR-141070-12

Date:

March 18, 2013

Legend

Parent =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Dear :

This letter responds to your September 14, 2012 request for a ruling on certain federal income tax consequences of the transactions described below. The information submitted in that request and in subsequent correspondence is summarized below.

Summary of Facts

Prior to Date 1, Parent was the common parent of an affiliated group of corporations that filed a consolidated federal income tax return on a calendar-year basis (the "Old Group"). Effective Date 1, Parent made an election under section 1362 of the Internal Revenue Code (the "Code") to be taxed as an S corporation for federal income tax purposes and made qualified subchapter S subsidiary ("QSub") elections for all of its subsidiaries. As a consequence, the Old Group terminated for federal income tax purposes effective at the end of the day on Date 2.

Effective Date 3, Parent revoked its S corporation election by filing a letter with the Internal Revenue Service in accordance with the procedures set forth in section 1362(d)(1) and the applicable Treasury regulations. Parent's revocation of its S

corporation election caused each QSub election to terminate as of the end of the day on Date 4. As a result of the termination of the QSub elections, Parent was treated for federal income tax purposes as transferring the assets of its QSubs to newly formed corporations (the "Former QSubs") as set forth in section 1361(b)(3)(C) and the regulations promulgated thereunder.

As a result of Parent's revocation of its S corporation election, Parent and each of the Former QSubs became members of an affiliated group with Parent as its common parent (collectively, the "New Group").

Parent has requested a ruling for a waiver under section 1504(a)(3)(B) permitting Parent and each other member of the New Group to be included in the New Group's consolidated federal income tax return beginning Date 3.

Section 1504(a)(3)(A) provides, in part, that if a corporation is included (or required to be included) in a consolidated return filed by an affiliated group and such corporation ceases to be a member of such group, such corporation (and any successor of such corporation) may not be included in any consolidated return filed by the affiliated group (or by another affiliated group with the same common parent or a successor of such common parent) before the 61st month beginning after its first taxable year in which it ceased to be a member of such affiliated group. Section 1504(a)(3)(B) provides, however, that the Secretary may waive the application of subparagraph (A) to any corporation for any period subject to such conditions as the Secretary may prescribe.

Section 5 of Rev. Proc. 2002-32, 2002-1 C.B. 959, sets forth the procedure for a deconsolidated corporation to request an automatic waiver under section 1504(a)(3)(B). Section 5.03 provides that, if the common parent of the current group is the common parent of the group from which the deconsolidated corporation disaffiliated, a representation must be made that such common parent was not an S corporation at any time during the period of disaffiliation. In turn, section 5.14 requires a representation that the disaffiliation and subsequent consolidation has not provided and will not provide a benefit of a reduction in income, increase in loss, or any other deduction, credit, or allowance (a federal tax savings) that would not otherwise be secured or have been secured had the disaffiliation and subsequent consolidation not occurred. In determining whether the disaffiliation and subsequent consolidation provided or will provide a federal tax savings, the net tax consequences to all parties, taking into account the time value of money, are considered.

Parent cannot provide the representations required by sections 5.03 and 5.14 of Rev. Proc. 2002-32. Consequently, Parent is not eligible for an automatic waiver.

Section 7 of Rev. Proc. 2002-32 provides that if a deconsolidated corporation cannot qualify for an automatic waiver, a waiver under section 1504(a)(3)(B) only may

be obtained through a letter ruling request. Section 7 further provides that the ruling request must include the information set forth in section 5. To the extent the representations set forth in section 5.03 or section 5.14 cannot be made, the letter ruling request must contain information establishing that federal tax savings (as described in section 5.14) was not a purpose of the disaffiliation, and that the amount of any federal tax savings attributable to the disaffiliation or a subsequent consolidation is not significant.

In the instant case, the information submitted does not establish that the amount of federal tax savings attributable to the disaffiliation of Parent and its subsidiaries (as a result of Parent's election to be taxed as an S corporation and its election to treat all of its subsidiaries as QSubs) is not significant.

Ruling

Based solely on the information submitted, we rule that Parent's request for a waiver under section 1504(a)(3)(B) is denied. Therefore, the New Group may not file a consolidated federal income tax return with Parent as the common parent until the expiration of the period described in section 1504(a)(3)(A).

Caveats

We express no opinion about the tax treatment of any of the foregoing transactions under any other provisions of the Code or Treasury regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, these transactions that are not specifically covered by the above rulings.

Procedural Matters

This ruling letter is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any federal income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of this letter ruling.

In accordance with the power of attorney on file in this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Russell G. Jones
Assistant to the Branch Chief, Branch 2
Office of Associate Chief Counsel (Corporate)

cc: